

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Homer Township	County Midland
Fiscal Year End June 30, 2006	Opinion Date February 21, 2007	Date Audit Report Submitted to State March 20, 2007	

We affirm that:

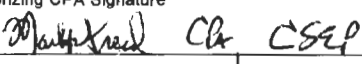
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (F.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Internal Audit Committee Letter	
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number 989-835-7721	
Street Address 5915 Eastman Ave, Suite 100		City Midland	State MI
		Zip 48640	
Authorizing CPA Signature 		Printed Name Mark R. Freed, CPA, CSEP	License Number 12221

Homer Township
Midland County, Michigan

Financial Statements

June 30, 2006

**HOMER TOWNSHIP
TOWNSHIP OFFICIALS
AS OF JUNE 30, 2006**

OFFICERS

Julie Atkinson, Supervisor
Todd Lee, Clerk
Albert Tew, Treasurer

TRUSTEES

Helen Mudd
John Stern
Russ Varner
Tad Mapes

**POPULATION-2000
3,924**

**STATE EQUALIZED VALUATION-2005
\$ 117,273,850**

**STATE TAXABLE VALUE-2005
\$ 93,929,133**

**HOMER TOWNSHIP
MIDLAND COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
June 30, 2006**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Homer Township
Midland County, Michigan

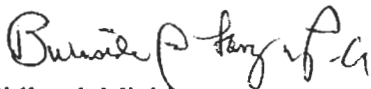
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township (the "Township"), Midland County, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township, Midland County, Michigan, as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements of Homer Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
February 21, 2007

HOMER TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,748,974
Assessments receivable, net	5,894,563
Due from other funds	12,480
Due from other governmental units	40,733
Prepaid items	753,109
Capital assets:	
Land and improvements	460,130
Buildings and improvements, net	1,974,513
Equipment, net	133,924
Vehicles, net	220,107
Water system, net	9,323,152
Total capital assets	<u>12,111,826</u>
Total assets	<u>20,561,685</u>
LIABILITIES	
Accounts payable	112,690
Accrued expenses	58,373
Deferred revenue	5,894,563
Long-term liabilities:	
Portion due or payable after one year:	
Bonds and contracts payable	<u>9,000,000</u>
Total liabilities	<u>15,065,626</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,111,826
Restricted for:	
Debt service	1,565,111
Unrestricted	<u>819,122</u>
Total net assets	<u>\$ 5,496,059</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 2

**HOMER TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental:					
General government	\$ 292,992	\$ 28,157	\$ -	\$ -	\$ (264,835)
Public safety	185,632	33,123	-	-	(152,509)
Public works	617,038	-	-	-	(617,038)
Community and economic development	4,157	-	-	-	(4,157)
Recreation and culture	52,342	-	-	-	(52,342)
Interest and fiscal charges	381,065	-	-	-	(381,065)
Total governmental activities	\$ 1,533,226	\$ 61,280	\$ -	\$ -	(1,471,946)
General revenues:					
Property taxes, levied for general purposes					429,301
State aid					277,481
Investment earnings					383,016
Miscellaneous					181,162
Special assessments					583,207
Total general revenues					1,854,167
Change in net assets					382,221
Net assets-beginning (as adjusted)					5,113,838
Net assets-ending					\$ 5,496,059

The accompanying notes are an integral part of these financial statements.

**HOMER TOWNSHIP
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2006**

	<u>General</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 194,882	\$ 179,919	\$ 1,374,173	\$ 1,748,974
Assessments receivables, net	-	-	5,894,563	5,894,563
Due from other funds	140,731	-	-	140,731
Due from other governmental units	40,733	-	-	40,733
Prepaid items	-	-	753,109	753,109
Total assets	<u>\$ 376,346</u>	<u>\$ 179,919</u>	<u>\$ 8,021,845</u>	<u>\$ 8,578,110</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,951	\$ 16,609	\$ 65,130	\$ 112,690
Accrued expenses	4,328	1,583	52,462	58,373
Due to other funds		85,343	42,908	128,251
Deferred revenue	-	-	5,894,563	5,894,563
Total liabilities	<u>35,279</u>	<u>103,535</u>	<u>6,055,063</u>	<u>6,193,877</u>
Fund balances:				
Reserved for:				
Unreserved and undesignated	341,067	76,384	1,966,782	2,384,233
Total fund balances	<u>341,067</u>	<u>76,384</u>	<u>1,966,782</u>	<u>2,384,233</u>
Total liabilities and fund balances	<u>\$ 376,346</u>	<u>\$ 179,919</u>	<u>\$ 8,021,845</u>	<u>\$ 8,578,110</u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances for governmental funds (Exhibit 3) \$ 2,384,233

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and improvements	\$ 460,130	
Buildings and improvements, net of \$597,196 accumulated depreciation	1,974,513	
Equipment, net of \$251,765 accumulated depreciation	133,924	
Vehicles, net of \$158,831 accumulated depreciation	220,107	
Water system, net of \$1,283,454 accumulated depreciation	<u>9,323,152</u>	
Total capital assets		12,111,826

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at June 30, 2005 are:

Road special assessment bonds, 7/7/1993	(15,000)	
District 1 water supply bonds, 9/1/1997	(3,255,000)	
Districts 3 & 4 water supply bonds, 2/1/2003	(2,780,000)	
Districts 6 & 7 water supply bonds, 11/1/2003	(2,575,000)	
Districts 8 & 10 water supply bonds, 12/8/2005	<u>(375,000)</u>	
		<u>(9,000,000)</u>

Total net assets of governmental activities (Exhibit 2) \$ 5,496,059

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2006

	General	Fire Department	Other Governmental Funds	Total
REVENUES				
Property taxes and related fees	\$ 334,157	\$ 89,378	\$ 5,766	\$ 429,301
Licenses and permits	-	-	33,123	33,123
State aid	277,481	-	-	277,481
Charges for services	28,157	-	-	28,157
Interest and dividends	8,085	1,801	373,130	383,016
Rents and royalties	35,620	22,906	-	58,526
Special assessments, net	-	-	583,207	583,207
Miscellaneous	7,413	750	114,473	122,636
Total revenues	<u>690,913</u>	<u>114,835</u>	<u>1,109,699</u>	<u>1,915,447</u>
EXPENDITURES				
General government	274,823	-	-	274,823
Public safety	3,731	77,517	21,700	102,948
Public works	343,335	-	68,581	411,916
Community and economic development	4,157	-	-	4,157
Recreation and culture	52,342	-	-	52,342
Capital outlay	130,330	15,671	389,296	535,297
Debt service				
Principal	-	-	485,000	485,000
Interest	-	-	379,265	379,265
Paying agent fees	-	-	1,800	1,800
Total expenditures	<u>808,718</u>	<u>93,188</u>	<u>1,345,642</u>	<u>2,247,548</u>
Excess (deficiency) of revenues over expenditures	<u>(117,805)</u>	<u>21,647</u>	<u>(235,943)</u>	<u>(332,101)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt obligations	-	-	375,000	375,000
Transfers In	-	-	366,137	366,137
Transfers (Out)	-	-	(366,137)	(366,137)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>375,000</u>	<u>375,000</u>
Net change in fund balances	<u>(117,805)</u>	<u>21,647</u>	<u>139,057</u>	<u>42,899</u>
Fund balances-beginning	<u>458,872</u>	<u>54,737</u>	<u>1,827,725</u>	<u>2,341,334</u>
Fund balances-ending	<u>\$ 341,067</u>	<u>\$ 76,384</u>	<u>\$ 1,966,782</u>	<u>\$ 2,384,233</u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit 4)	\$	42,899
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$535,297) exceeded depreciation (\$305,975) in the current period.		229,322
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Road special assessment bonds, 7/7/1993	5,000		
District 1 water supply bonds, 9/1/1997	240,000		
Districts 3 & 4 water supply bonds, 2/1/2003	155,000		
Districts 6 & 7 water supply bonds, 11/1/2003	85,000		485,000

Debt Proceeds:

Districts 8 & 10 water supply bonds, 12/8/2005	(375,000)		(375,000)
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Change in net assets of governmental activities (Exhibit 2)	\$	382,221
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The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	<u>Current Tax Collection</u>
ASSETS	
Cash and cash equivalents	\$ 12,480
Total assets	<u>12,480</u>
LIABILITIES	
Due to other funds	<u>12,480</u>
Total liabilities	<u>12,480</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Homer Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Homer Township:

A. Reporting Entity

Homer Township (the "Township") was organized in 1862 and covers an area of approximately 18 square miles. The Township is governed by an elected seven-member board. The Township provides services to its various residents in many areas, including general government, public safety, public works and recreation and culture. As required by GAAP, these financial statements present the Township, which has no component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."*

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st.

The 2005 taxable valuation of the Township totaled \$93.9 million on which ad valorem taxes levied consisted of 2.8261 mills for operating purposes. These amounts are recognized as revenue in the general, fire, and road project funds.

The government reports the following major funds:

General Fund - This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, state aid, and charges for services to provide for the administration and operation of: (1) general township governmental departments, boards and commissions; (2) public safety; (3) public works; and (4) recreation and culture. The fund includes the general operating expenditures of the Township.

Fire Fund - This fund is used to account for specific revenue sources generally derived from property taxes, general fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory, or administrative requirements.

Additionally, the government reports the following fund types:

Debt Service Funds - These funds account for recording long term debt expenditures for the Township.

Capital Project Funds - These funds are used to account for the acquisition or construction of major facilities other than those financed by proprietary fund operations.

Current Tax Collection Fund - This fund is an agency fund used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building improvements	30 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 30 years
Mowing equipment	10 to 20 years
Office equipment	5 to 20 years
Computer equipment	5 to 10 years

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. LEGAL COMPLIANCE

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board. The annual operating budget has been prepared in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended (MCL 141.421 et seq.), provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Township for these budgeted funds were adopted to the activity level.

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund - Treasurer	\$ 32,146	\$ 32,474
General Fund- Building Inspection	3,700	3,731
General Fund- Road Improvements	122,348	122,853
General Fund- Street Lighting	10,000	10,546
General Fund- Parks and Recreation	22,698	24,967
General Fund – Capital Outlay gen.	58,338	99,420
Fire Dept. Fund – Salaries & Wages	13,000	19,120
Fire Dept. Fund – Payroll Taxes	750	1,092
Fire Dept. Fund – Contracted Services	500	2,112
Fire Dept. Fund – Spraying	200	366
Fire Dept. Fund – Mileage and Expenses	3,500	3,706
Fire Dept. Fund – Utilities	16,000	21,863
Fire Dept. Fund – Repairs & Maint.	6,000	7,258
Fire Dept. Fund- Miscellaneous	-	119
Fire Dept. Fund – Capital Outlay	-	15,671

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS

The Township's deposits and investments are presented on the balance sheet under the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 1,748,974	\$ 12,480	\$ 1,761,454

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	\$ 1,761,454
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Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated five banks for the deposit of Township funds. The investment policy adopted by the Township Board in accordance with Public Act 196 of 1997, has authorized investments in certificates of deposit, savings accounts, local government investment pools organized under PA 121, MCL 129.141 to 129.50, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

The Township's deposits and investments are in accordance with statutory authority.

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

Insured (FDIC)	\$ 317,276
Uninsured and Uncollateralized	1,783,600
	<hr/>
Totals	\$ 2,100,876
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HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$574 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the Village of Sanford will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Village had no investment activity.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Village's current investments have no potential interest rate risk

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 4. CAPITAL ASSETS

A summary of changes in general capital assets follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 402,240	\$ 60,210	\$ 2,320	\$ 460,130
Capital Assets Being Depreciated				
Buildings and improvements	2,512,438	59,271		2,571,709
Equipment*	359,170	26,519		385,689
Vehicles	378,938	-		378,938
Water system	10,217,310	389,296	-	10,606,606
Subtotal	13,467,856	475,086	-	13,942,942
Less Accumulated Depreciation for				
Buildings and improvements	531,914	65,282	-	597,196
Equipment	232,987	18,778	-	251,765
Vehicles	144,130	14,701	-	158,831
Water system	1,078,560	204,894	-	1,283,454
Subtotal	1,987,591	303,655	-	2,291,246
Net Capital Assets Being Depreciated	11,480,265	171,431	-	11,651,696
Governmental Activities Capital Assets-Net of Depreciation	<u>\$11,882,505</u>	<u>\$ 231,641</u>	<u>\$ 2,320</u>	<u>\$12,111,826</u>

Depreciation expense was charged to activities of the Township as follows:

General government	\$ 18,169
Public safety	82,684
Public works	205,122
Total depreciation expense	<u>\$ 305,975</u>

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 5. INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

The amounts of the interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 140,731	Building Codes	\$ 1,049
		Fire Fund	85,343
		Capital Project 6 & 7	2,686
		Capital Project 8 & 10	39,173
		Tax Collection Fund	12,480
	<hr/>		<hr/>
Total	\$ 140,731	Total	\$ 140,731
	<hr/>		<hr/>

NOTE 6. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 7. EMPLOYEE RETIREMENT PLAN

Homer Township provides pension benefits to all township officials and employees except for volunteer firemen and seasonal employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the Plan are based on a scale set up in the pension adoption agreement for different levels of compensation. Employees can also make voluntary contributions to the plan. Upon early retirement or termination of service, other than because of death, disability, or normal retirement, benefits in the plan vest immediately at 100%. For the year ended June 30, 2006, the cost to the Township for this plan, including administrative charges, was \$22,900.

NOTE 8. SPECIAL ASSESSMENTS RECEIVABLES

Special assessments were assessed to the taxpayers of Homer Township to be used for the construction of new water districts. The assessments resulted in receivables totaling \$ 5,894,563 for the Township as of June 30, 2006 (see Exhibit 8). These receivables are shown as current assets with an offset of a deferred liability, on the June 30, 2006 Government Wide Statement of Net Assets.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 9. LONG-TERM DEBT

The individual fund long-term debt and other general long-term obligations of the Township and the changes therein, are summarized as follows:

	July 1, 2005	Additions (Reductions)	June 30, 2006
Road Special Assessment Bonds, dated July 7, 1993 in the amount of \$80,000 to finance a road construction project. Principal payments are due annually on May 1, with an interest rate ranging from 3.85% to 5.85%, payable May 1 and November 1	\$ 20,000	\$ (5,000)	\$ 15,000
District 1 Water Supply System Bonds with Midland County, dated September 1, 1997 in the amount of \$4,990,000 to finance construction of a water system project. Principal payments are due annually on August 1, with an interest rate ranging from 4.6% to 6.0%, payable February 1 and August 1	3,495,000	(240,000)	3,255,000
Districts 3 and 4 Water Supply System Bonds with Midland County, dated February 1, 2003 in the amount of \$2,955,000 to finance construction of a water system extension. Principal payments are due annually on August 1, with an interest rate ranging from 3.5% to 4.75%, payable February 1 and August 1	2,935,000	(155,000)	2,780,000
Districts 6 and 7 Water Supply System Bonds with Midland County, dated November 1, 2003 in the amount of \$2,660,000 to finance construction of a water system extension. Principal payments are due annually on August 1, with an interest rate ranging from 2.5% to 4.75%, payable February 1 and August 1	2,660,000	(85,000)	2,575,000
Districts 8 and 10 Water Supply System Bonds with Midland County, dated 12/8/05 in the amount of \$375,000 to finance construction of a water system extension. Principal payments are due annually on August 1, with an interest rate ranging from 3.4 % to 4.8 %, payable February 1 and August 1	-	375,000	375,000
Total Long-Term Debt	<u>\$ 9,110,000</u>	<u>\$ (110,000)</u>	<u>\$9,000,000</u>

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 9. LONG-TERM DEBT (Continued)

The annual principal and interest requirements through maturity for all long-term debt outstanding as of June 30, 2006, are as follows:

Year	General Obligations
2007	\$ 937,995
2008	918,237
2009	893,726
2010	870,212
2011	841,974
Thereafter	7,568,542
	12,030,686
Less Interest	3,030,686
Total	\$ 9,000,000

NOTE 10. AGREEMENT WITH CITY OF MIDLAND

The Township has an agreement with the City of Midland, dated July 29, 1997, whereby the Township, through bonds issued by the County of Midland, will construct and install a water system that is connected to the City's water system. Upon completion of construction and installation acceptance by the City, the water mains within the Township Water Service Area shall remain the property of the Township. The City shall provide all operation, maintenance and service necessary for the proper, efficient and lawful use of the system. In addition, the City will provide and maintain at its expense all meters for measuring water supplied to Township customers. Finally, the City shall bill each Township customer in accordance with the City Code of Ordinances. The billings will consist of a usage charge to be recognized by the City and a debt service and maintenance surcharge of \$90 per year to each customer, which will be used to help make payments on the Water Supply System Bonds. The agreement shall be effective for an initial term of 40 years and may be renewed as mutually agreed upon by both parties.

NOTE 11. RESTATEMENT OF PRIOR YEAR NET ASSETS

Prior year net assets were restated on the current year's financial statements by a net decrease of \$19,805, due to errors in the balance of equipment and long-term debt. The cost of equipment was increased by a total of \$7,745, increasing the balance at July 1, 2005 from \$351,426 to \$359,170. The principal balance of long-term debt was increased by a total of \$27,550 at July 1, 2005, increasing the balance at July 1, 2005 from \$9,082,450 to \$9,110,000.

HOMER TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 145,900	\$ 145,900	\$ 334,157	\$ (188,257)
State aid	239,500	239,500	277,481	(37,981)
Charges for services	221,000	221,000	28,157	192,843
Interest and dividends	2,700	2,700	8,085	(5,385)
Rents and royalties	4,000	4,000	35,620	(31,620)
Miscellaneous	24,000	24,000	7,413	16,587
Total revenues	<u>637,100</u>	<u>637,100</u>	<u>690,913</u>	<u>(53,813)</u>
EXPENDITURES				
General Government:				
Township board	29,640	29,640	20,489	9,151
Supervisor	23,323	23,323	20,777	2,546
Treasurer	32,146	32,146	32,474	(328)
Assessor	27,457	27,457	23,907	3,550
Clerk	31,818	31,818	29,409	2,409
Elections	55	55	55	-
Cemetery	62,100	62,100	54,031	8,069
Buildings and grounds	108,989	108,989	44,068	64,921
All other general government	59,602	59,602	49,613	9,989
Public Safety:				
Building inspection and regulation activities	3,700	3,700	3,731	(31)
Public Works:				
Public works	14,225	14,225	12,426	1,799
Solid waste	193,000	193,000	181,348	11,652
Water committee	2,350	2,350	1,836	514
Road improvements	122,348	122,348	122,853	(505)
Drains	14,326	14,326	14,326	-
Street lighting	10,000	10,000	10,546	(546)
Community/Economic Development:				
Planning commission	5,405	5,405	3,965	1,440
Zoning board of appeals	1,550	1,550	192	1,358
Recreation and Culture:				
Parks and recreation	22,698	22,698	24,967	(2,269)
Library	27,375	27,375	27,375	-
Capital Outlay:				
General government	58,338	58,338	99,420	(41,082)
Public works	5,000	5,000	1,232	3,768
Parks and recreation	43,642	43,642	29,678	13,964
Total expenditures	<u>899,087</u>	<u>899,087</u>	<u>808,718</u>	<u>90,369</u>
Excess (deficiency) of revenues over expenditures	(261,987)	(261,987)	(117,805)	36,556
Fund balances-beginning	<u>458,872</u>	<u>458,872</u>	<u>458,872</u>	<u>-</u>
Fund balances-ending	<u>\$ 196,885</u>	<u>\$ 196,885</u>	<u>\$ 341,067</u>	<u>\$ 36,556</u>

HOMER TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
FIRE FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 94,000	\$ 94,000	\$ 89,378	\$ (4,622)
Interest and dividends	375	375	1,801	1,426
Rents and royalties	26,000	26,000	22,906	(3,094)
Miscellaneous	-	-	750	750
Total revenues	<u>120,375</u>	<u>120,375</u>	<u>114,835</u>	<u>(5,540)</u>
EXPENDITURES				
Salaries and wages	13,000	13,000	19,120	(6,120)
Payroll taxes	750	750	1,092	(342)
Retirement	1,000	1,000	896	104
Supplies	7,000	7,000	5,953	1,047
Contracted services	500	500	2,112	(1,612)
Spraying	200	200	366	(166)
Medical services	200	200	-	200
Telephone	2,000	2,000	1,705	295
Mileage and expenses	3,500	3,500	3,706	(206)
Dues and subscriptions	1,300	1,300	1,080	220
Training	1,000	1,000	787	213
Insurance	15,000	15,000	11,460	3,540
Utilities	16,000	16,000	21,863	(5,863)
Repairs and maintenance	6,000	6,000	7,258	(1,258)
Miscellaneous	-	-	119	(119)
Capital outlay	-	-	15,671	(15,671)
Total expenditures	<u>67,450</u>	<u>67,450</u>	<u>93,188</u>	<u>(25,738)</u>
Excess (deficiency) of revenues over expenditures	52,925	52,925	21,647	(31,278)
Fund balances-beginning	<u>54,737</u>	<u>54,737</u>	<u>54,737</u>	<u>-</u>
Fund balances-ending	<u>\$ 107,662</u>	<u>\$ 107,662</u>	<u>\$ 76,384</u>	<u>\$ (31,278)</u>

**HOMER TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

	Special Revenue Fund		Debt Service Funds					Capital Project Funds			Total Nonmajor Governmental Funds
	Building Inspection	Water System Maintenance	1993 Special Assessment Bonds Roads	1998 Water Supply System Bonds District No. 1	2003 Water Supply System Bonds Districts No. 3 & 4	2004 Water Supply System Bonds Districts No. 6 & 7	2006 Water Supply System Bonds District No. 8 & 10	Water Construction Districts No. 3 & 4	Water Construction Districts No. 6 & 7	Water Construction District No. 8 & 10	
ASSETS											
Cash and cash equivalents	\$ 26,676	142,491	\$ 15,286	\$ 7,322	\$ 524,806	\$ 267,783	\$ 23,532	\$ -	\$ 280,794	\$ 85,483	\$ 1,374,173
Assessments receivable, net	-	-	7,910	1,311,338	2,134,832	2,083,333	357,150	-	-	-	5,894,563
Prepaid items	-	-	-	317,113	210,808	204,161	-	-	-	21,027	753,109
Total assets	\$ 26,676	\$ 142,491	\$ 23,196	\$ 1,635,773	\$ 2,870,446	\$ 2,555,277	\$ 380,682	\$ -	\$ 280,794	\$ 106,510	\$ 8,021,845
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ 485	\$ 58,945	\$ -	\$ 5,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,130
Accrued expenses	274	-	-	-	-	-	-	-	18,223	33,965	52,462
Due to other funds	1,049	-	-	-	-	-	-	-	2,686	39,173	42,908
Due to other governmental units	-	-	-	-	-	-	-	-	-	-	-
Deposits and other liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	7,910	1,311,338	2,134,832	2,083,333	357,150	-	-	-	5,894,563
Total liabilities	1,808	58,945	7,910	1,317,038	2,134,832	2,083,333	357,150	-	20,909	73,138	6,055,063
Fund balances:											
Reserved for:											
Unreserved and undesignated	24,868	83,546	15,286	318,735	735,614	471,944	23,532	-	259,885	33,372	1,966,782
Total fund balances	24,868	83,546	15,286	318,735	735,614	471,944	23,532	-	259,885	33,372	1,966,782
Total liabilities and fund balances	\$ 26,676	\$ 142,491	\$ 23,196	\$ 1,635,773	\$ 2,870,446	\$ 2,555,277	\$ 380,682	\$ -	\$ 280,794	\$ 106,510	\$ 8,021,845

HOMER TOWNSHIP
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	Special Revenue Fund		Debt Service Funds					Capital Project Funds			Total Nonmajor Governmental Funds
	Building Inspection	Water System Maintenance	1993 Special Assessment Bonds for Roads	1998 Water System Bonds District 1	2003 Water System Bonds District 3 & 4	2004 Water System Bonds District 6 & 7	2006 Water System Bonds District 8 & 10	Water Construction District 3 & 4	Water Construction District 6 & 7	Water Construction District 8 & 10	
REVENUES											
Property taxes and related fees	\$ -	\$ -	\$ 5,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,766
Licenses and permits	30,868	1,375	-	165	385	275	55	-	-	-	33,123
Interest and dividends	-	3,531	74	96,271	137,590	117,707	4,977	552	8,011	4,417	373,130
Special assessments, net	-	-	-	252,744	176,198	135,765	18,500	-	-	-	583,207
Miscellaneous	-	41,661	-	70,291	-	2,208	-	-	-	313	114,473
Total revenues	30,868	46,567	5,840	419,471	314,173	255,955	23,532	552	8,011	4,730	1,109,699
EXPENDITURES											
Public safety	21,700	-	-	-	-	-	-	-	-	-	21,700
Public works	-	61,346	-	6,246	416	573	-	-	-	-	68,581
Capital outlay	-	-	-	-	-	-	-	-	45,617	343,679	389,296
Debt service	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	5,000	240,000	155,000	85,000	-	-	-	-	485,000
Interest	-	-	1,360	161,426	114,327	99,473	2,679	-	-	-	379,265
Paying agent fees	-	-	200	700	450	450	-	-	-	-	1,800
Total expenditures	21,700	61,346	6,560	408,372	270,193	185,496	2,679	-	45,617	343,679	1,345,642
Excess (deficiency) of revenues over expenditures	9,168	(14,779)	(720)	11,099	43,980	70,459	20,853	552	(37,606)	(338,949)	(235,943)
OTHER FINANCING SOURCES (USES)											
Proceeds from debt obligations	-	-	-	-	-	-	-	-	-	375,000	375,000
Transfers In (Out)	-	98,325	-	(98,325)	133,760	131,373	2,679	(133,760)	(131,373)	(2,679)	-
Total other financing sources and uses	-	98,325	-	(98,325)	133,760	131,373	2,679	(133,760)	(131,373)	372,321	375,000
Net change in fund balances	9,168	83,546	(720)	(87,226)	177,740	201,832	23,532	(133,208)	(168,979)	33,372	139,057
Fund balances-beginning	15,700	-	16,006	405,961	557,874	270,112	-	133,208	428,864	-	1,827,725
Fund balances-ending	\$ 24,868	\$ 83,546	\$ 15,286	\$ 318,735	\$ 735,614	\$ 471,944	\$ 23,532	\$ -	\$ 259,885	\$ 33,372	\$ 1,966,782

Homer Township
Midland County, Michigan

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COMMENTS & RECOMMENDATIONS LETTER

February 21, 2007

Members of the Township Board
Homer Township
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Homer Township, for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)

Township Credit Cards

During the March 2004 Board of Trustees meeting, the Board moved to eliminate all retail credit arrangements. During our audit fieldwork we noted the Township still utilizing certain retail credit arrangements. We still recommend the Board of Trustees either follow its own directive and eliminate all retail credit arrangements, or adopt a new credit card policy in accordance with State of Michigan requirements.

Bank Reconciliations

The reconciliation process is improving, but there are still difficulties involved and the process does not go very smoothly. We recommend that the Treasurer and Clerk obtain additional accounting assistance during one month's reconciliation process so that improvements can be made in this process.

Special Assessment Reconciliations

In FY 2006, the Treasurer implemented a new software system for tracking special assessments and the Treasurer did not prepare the annual special assessment rolls on a timely basis, so the auditors became involved in getting these reports reconciled to the General Ledger. We recommend that the annual Special Assessment rolls be prepared by the Treasurer in July so that the Clerk has time to reconcile the totals to the General Ledger before the audit begins.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of the amount appropriated in the various activity centers of the General and Fire Funds.

We again recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Record Management

It is very important to have an orderly filing system to prevent lost items. During our audit, although we noted some improvements, we again encountered difficulty in locating meeting minutes, special assessment rolls, contracts, invoices and board resolutions. The system can be organized any number of ways, but should be clear, uncomplicated, and evident without reliance on the individual who normally does the filing.

Financial Oversight

The general limitations in any smaller municipalities like Homer Township requires that Township Board members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions, and our comment here is intended to emphasize the importance of this oversight.

Segregate Costs for Water Districts

In October 2005, the Treasurer broke out the combined water funds #3/#4 AND #6/#7 into their own separate funds. Since this process was initiated in the midst of the fiscal year, we opted not to report those funds separately on the audited financial statements for fiscal year 2006. In fiscal year 2007, an entire year of separate activity will be noted in each fund and these funds will be reported on a segregated basis.

Improvement of General Record Retention Procedures

For FY 2005, a printed copy of the general ledger was not retained by the Clerk for reference. Because it is difficult to access the prior year's financial activity on the Township's accounting software, the Clerk should retain a printed copy of the final general ledger for each fiscal year.

A personnel file is not currently maintained and updated for each Township employee. We recommend that a personnel file be created for each employee and the Township obtain new tax withholding documents and INS I-9 forms for each employee. I-9 forms are required to be prepared within 3 days of hiring a new employee. The personnel files are also commonly used for copies of performance evaluations and other personnel documentation.

In FY 2006, the Clerk did not keep a copy of all vendor invoices which were submitted for payment out of the funds held by Midland County. We recommend that a copy be obtained for the Clerk's files, and the Clerk later compare his copy to the amount paid by the County.

Clerk to Enter All Fund Activity into General Ledger

There is significant financial activity which is not entered into the General Ledger system prior to the annual audit. We recommend that the Clerk enter ALL financial activity for the Township in the General Ledger on a frequent basis. The Clerk should obtain monthly or quarterly statements from Midland County and record the activity for those funds in the general ledger. Also, the Clerk should obtain a monthly or quarterly summary of activity from the Treasurer for the Tax Collection fund, and that activity should also be frequently recorded in the General Ledger.

Offsite Backup of Computer Files

Currently, there is no off-site backup of the computerized files at the Township Hall. In case of a catastrophic event, those computer files could be lost. We recommend that procedures be implemented to back up the accounting system and other significant computer files to an off-site storage device on a weekly basis. This off-site storage device could be as inexpensive as a USB or flash drive. The drive could be loaded with copies of computer files on a weekly basis and taken to an employee's home.

Board Approval of New Funds

In FY 2006, a new fund, #296, was broken out from water district #1. This new fund was created to track the flow of money received for surcharges, hydrant fees and permits for all water districts. The establishment of this new fund was not formally approved by the Board of Trustees. All new funds should be approved by the Board. At this point, we recommend that a list of funds and their stated purpose be submitted for Board approval, and any new funds be formally approved by the Board.

Documentation of Procedures, Job Descriptions & Expectations

The supervisor is currently writing a personnel manual and writing job descriptions to document employee expectations. We encourage the completion of this project. Additionally, we recommend that a Conflict of Interest Policy be adopted by the Board of Trustees.

Document Reviews of Vendor Bills

Most bills paid by the Township do not have any written indication that the bill was reviewed for accuracy by a Township employee. We recommend that each vendor bill be initialed or signed by the appropriate Township employee who is requesting payment. Prior to signing the bill, the employee should verify the validity and accuracy of the bill.

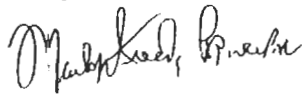
Additionally, we recommend that an account code be placed on the face of the bill before entry into the accounting system. We recommend that the Clerk also sign or initial the bill to note his approval of the coding and his review of the payment request.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2006, financial statements, and this report does not affect our report on those financial statements dated February 21, 2007. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael K. Burnside".

BURNSIDE & LANG, P.C.

Homer Township
Midland County, Michigan

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INTERNAL AUDIT COMMITTEE LETTER

February 21, 2007

Members of the Township
Board of Trustees
Homer Township
Midland, Michigan

This letter is intended to inform the Board of Trustees of Homer Township about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Trustees.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

Our audit of the financial statements of Homer Township for the year ended June 30, 2006 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based on management's current knowledge. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgment about accounting estimates, and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit & Assurance Services ■ Accounting & Finance Services ■ Estate & Gift Tax Planning & Consulting
Tax Planning & Preparation ■ Financial & Management Assistance ■ Business Valuations

Audit Adjustments

There were audit adjustments made to the original trial balance presented to us to begin our audit. In our judgment, the adjustments we proposed, either individually or in the aggregate, are not considered to have a significant effect on the Township's financial reporting process. A copy of all audit adjustments, not yet recorded by the Township Clerk, accompanies this letter.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Township. The Township did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultation with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing related matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit and appreciate the assistance received from the Township Clerk and Treasurer.

Other Matters

Internal Control Policies

Statement on Auditing Standard (SAS) No. 99, requires auditors to assess risks of fraud after taking into account the evaluation of the townships programs and controls to prevent, deter and detect fraud. As part of our responsibilities under SAS 99, we have addressed the risk assessment by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors. SAS 99 further states that it is management's responsibility for designing and implementing effective systems and procedures for preventing, deterring and detecting fraud. While we did not identify any specific fraud risks, we recommend the Township periodically review the controls in place to prevent, deter and detect fraud.

A handwritten signature in black ink, appearing to read "Marked, Burnside". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

BURNSIDE & LANG, P.C.
Midland, Michigan
February 21, 2007